

By SARAH E. NEEDLEMAN

In late 2007, Taylor Senatore and Jennifer Frank withdrew most of their personal savings—a combined \$250,000—to launch California Wine Merchants in New York. The duo, who teamed up after discovering by chance that they shared the same entrepreneurial goal, figured that amount would cover all of their start-up costs and even leave change to spare.

But Mr. Senatore and Ms. Frank didn't realize that the property they rented came with special restrictions for turning the raw space into a retail store. As a result, they ended up spending 80% of their budget on construction costs alone.



Scott Thigpen

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"We had not even thought about the monumental bureaucracy that was to come when we signed our lease," says Mr. Senatore, a former attorney who decided to pursue entrepreneurship after moving for his wife's career.

When starting a business on a tight budget, a single spending gaffe can spell disaster. For this reason, experts in entrepreneurship recommend taking precautions, such as doing research to identify potential hidden fees, focusing only on necessities and setting aside emergency funds.

Question Everything

"You don't want to overextend yourself or run through your reserves before you're even up and running," says Dennis Ceru, adjunct professor of entrepreneurship at Babson College. "It really comes down to keeping a close eye on every aspect of your cash flow and asking yourself, 'Do I really have to spend this money today?'"

Kimberley Debus says she regrets spending \$2,000 on annual memberships to several trade groups upon starting her writing, editing and publishing business, Word Alchemy, in 2008 out of her home in Round Lake, N.Y. She didn't need many of the benefits she gained, such as access to discounted health insurance. "I wasn't seeing the return," she says.

In hindsight, Ms. Debus, who opted to work for herself after experiencing a back injury, says she should have paid to attend a few of the groups' events as a nonmember instead. "The networking is the same," she says.

Costly Website

Similarly, Susan Miller of Anderson, Ind., admits she wasted \$2,700 on a website for Ewing Miller Communications, a solo public-relations practice she launched in April 2009 after her former employer closed down. "I bought into the belief that I needed to have a website to be a legitimate business," she says. "In reality, I'm in a fairly small market and my business comes through referrals more than anything else. I could've done just as well without it."

Other first-time business owners say they wish they'd gone about making some of their early investments differently. For example, Blane Fitzgerald Stoddart and Fred Werner say they probably could have held the grand opening for their Philadelphia construction-management firm, BFW Group, inside a friend's office building for free rather than spend \$5,000 to hold it at a restaurant this past spring.

They also say they could've avoided spending \$18,000 on business cards and various marketing materials if they'd shopped around for less expensive options. "I love the quality, but that's a lot of money in this economy,"

says Mr. Stoddart.

The pair expected to have their first few clients within three months of launching, but now predict it will take until the fall because of the poor economy. "We went in overly optimistic," says Mr. Stoddart, who was laid off in December from a job in the same industry.

Math Mistakes

In other cases, rookie business owners say they made spending snafus because they underestimated how much critical items would cost. For example, before opening Calisto's Sweet Treats Bakery in Southington, Conn., in June, business partners Michael Cirrito and Giancarlo Garcia-Zimmitti figured they'd need to set aside at most \$1,800 a month for food expenses. But now, halfway into the summer, it has become clear that their approximation was off by a whopping 100%.

"We're struggling," says Mr. Cirrito, a former chef for a casino who turned to entrepreneurship after his work hours were cut in half last year. Had he and his partner examined what they truly needed to spend to get their business started, Mr. Cirrito says they would've held off opening their doors until they'd gathered more start-up capital.

Tom Kruczek, executive director of the Falcone Center for Entrepreneurship at Syracuse University, says a common reason why first-time entrepreneurs mismanage their start-up budget is that they let their emotions get in the way of rational thinking. "They want to be successful so badly that in their haste they end up spending money in the wrong places," he says.

For Mr. Senatore and Ms. Frank, the wine retailers in New York, failing to read the fine print of their storefront's lease meant they needed to take out second mortgages on each of their homes to be able to keep their dream alive.

"As a new business owner, you're excited," says Mr. Senatore. "But the mistake we made threw off everything for us."

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